

# ARIZONA

## TAXNEWS



Janet Napolitano, Governor

Gale Garriott, Director

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#### ARIZONA DEPARTMENT OF REVENUE MISSION STATEMENT

To administer tax laws fairly  
and efficiently for the  
people of Arizona

#### WE'RE ON THE WEB!

The Arizona TaxNews can  
be viewed on our Internet  
website:

[www.azdor.gov](http://www.azdor.gov)

The *Arizona TaxNews* is a publication of the Arizona Department of Revenue. Information contained herein is of a general nature and is not designed to address complex issues in detail. Taxpayers requiring information concerning a specific tax matter should contact the appropriate office. This newsletter is available in an alternative format upon request.

## 93RD ANNUAL TAX CONFERENCE

**Where:** Sheraton Tucson, 5151 E Grant Rd.

**When:** October 5,6, 2006

For more information, please check the website at [www.azdor.gov/conference](http://www.azdor.gov/conference) or call 602-716-6806.

### Tentative conference agenda

#### Thursday, October 5, 2006

- 7:30-8:30 am Registration and full breakfast  
8:30-9:30 am Opening Session — Guest speaker: The Honorable Janet Napolitano, Governor  
9:15-10:15 am Keynote Speakers: Professor **Richard Pomp** and **Paul Frankel**  
10:30-11:45 am Aftermath of a Real Estate Boom  
11:45-1:15 pm Lunch (on your own)  
Concurrent Sessions  
1:15-2:30 pm GIS Session or TPT Issues  
3:00-4:15 pm Property Session or Corporate/Income Issues  
5:00-8:00 pm Social Hour with Dinner beginning at 6 pm

#### Friday, October 6, 2006

- 8:30-9:45 am Legislative Update  
10:00-11:15 am Litigation Update  
11:15 am Closing Remarks, Adjournment and drawing for county prizes

## NEW OPTIONS AVAILABLE TO EMPLOYERS AND TRANSACTION PRIVILEGE TAXPAYERS: LAW CHANGES TO HELP YOU

### You May Qualify for an Automatic Withholding Filing Extension!

How do you qualify? It's simple! Make your payments on time during the quarter and pay the full amount due. You will receive an automatic 10 day extension of time to file your return. You can file up to the 10<sup>th</sup> day of the second month following the close of the quarter. This mirrors the option the IRS provides.

### Electronic Filing of TPT Returns makes more sense than ever!

Transaction Privilege (Sales) Tax returns and payments filed electronically will be considered timely if received by the department by the second to the last business day of the month. Now you can e-file on AZTaxes with the same deadline that applies to walk-ins! Enroll today to electronically file your TPT returns by going to [www.AZTaxes.gov](http://www.AZTaxes.gov).

## 2006 ARIZONA LEGISLATIVE SUMMARIES

The 2006 Legislative Summary is a brief summary of the tax-related bills that were enacted by the Arizona Legislature and approved by the Governor. This month: Income Tax.

The general effective date is **September 21, 2006**, unless otherwise stated. Copies of these bills can be downloaded at [www.azleg.state.az.us/FinalDisposition.asp](http://www.azleg.state.az.us/FinalDisposition.asp) or may be requested from the Secretary of State's Office by calling (602) 542-4086.

### House Bill 2054 (Chapter 102)

Tax check-off; veterans' donations fund

HB2054 requires DOR to include a space on the individual income tax return to allow taxpayers to voluntarily designate an amount to donate from their refund to the Veterans' Donation Fund. Taxpayers can donate any amount in addition to or in lieu of a portion of their tax refund.

This bill is effective for taxable years beginning January 1, 2007.

### House Bill 2177 (Chapter 378)

Health insurance premium tax credit

HB2177 requires DOR to issue Certificates of Eligibility to individuals or businesses that apply and meet certain requirements. These Certificates of Eligibility allow for a decrease in health insurance premiums for the individual or business and a reduction in Arizona's insurance premium tax for the insurance carrier. The credit is limited to \$5 million annually. For more information, go to [www.azdor.gov](http://www.azdor.gov) and click on the "Credit Pre-Certification" link.

### House Bill 2429 (Chapter 333)

Solar energy tax incentives

Provisions:

- Establishes a new solar energy device tax credit beginning January 1, 2006 through December 31, 2012 for the installation of one or more solar energy devices for commercial or industrial purposes in a trade or business located in Arizona.
- Department of Commerce has 30 days to approve an application and supply an initial certificate for a Commercial Solar Energy Income Tax Credit.
- Department of Commerce shall not certify tax credits in any calendar year that exceed a total of \$1 million.
- Department of Commerce supplies DOR with a copy of the initial certificate, which includes the unique identification number, and the total amount of the income tax credit to be claimed.
- Specifies the amount of the tax credit is equal to 10% of the installed price and limits the credit taken to \$25,000 with respect to the same building in the same year and to \$50,000 per company per year.
- Allows a third party that finances the solar energy devices to take the tax credit.
- Prohibits solar energy devices and any other device or system designed for the production of solar energy for on-site consumption from adding to property value.

- Makes technical and conforming changes.

### House Bill 2712 (Chapter 244)

Tax decisions; distribution

HB2712 requires DOR as well as a few other agencies to provide redacted tax decisions to law libraries, state university Colleges of Law, the State Law Library, the Arizona State Library and any person who requests them. The bill also requires these agencies to publish tax decisions on their official website.

### House Bill 2795 (Chapter 342)

Tax exemption; active duty

HB2795 makes permanent the state income tax exemption of military income for active duty members of the Armed Forces of the United States and expands the exemption to include the military income of reservists and members of the National Guard.

This bill becomes effective on January 1, 2007.

### House Bill 2876 (Chapter 354)

Omnibus tax relief act

Provisions:

- Beginning in 2006, reduces the individual income tax rate by 10% over a two year period. The charts below indicate the current and new tax rates:

Single/Married Filing Separate Income Bracket	Current Tax Rate	New Tax Rate 2006	New Tax Rate 2007
\$0 - \$10,000	2.87%	2.73%	2.59%
\$10,001 - \$25,000	3.20%	3.04%	2.88%
\$25,001 - \$50,000	3.74%	3.55%	3.36%
\$50,001 - \$150,000	4.72%	4.48%	4.25%
\$150,001 and over	5.04%	4.79%	4.54%

Married Filing Joint/Head of Household Income Bracket	Current Tax Rate	New Tax Rate 2006	New Tax Rate 2007
\$0 - \$20,000	2.87%	2.73%	2.59%
\$20,001 - \$50,000	3.20%	3.04%	2.88%
\$50,001 - \$100,000	3.74%	3.55%	3.36%
\$100,001 - \$300,000	4.72%	4.48%	4.25%
\$300,001 and over	5.04%	4.79%	4.54%

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**Senate Bill 1074 (Chapter 387)**

Enterprise Zone; reauthorization

Extends the Enterprise Zone Program for five years and modifies the qualification requirements of the EZ Program. Small commercial printing businesses were added as a qualified business.

- Extends the EZ Program until June 30, 2011.
- Department of Commerce is required to certify small manufacturing and small commercial printing businesses annually under the EZ Program.
- Terminates an EZ Program certification of certified manufacturing or small commercial printing businesses if the ownership interest changes more than 20% and requires the new owners to apply for certification.
- Raises, from 10,000 to 15,000, the minimum population threshold of cities and towns to determine the minimum investment requirement.
- This bill becomes effective on the general effective date but is retroactive to July 1, 2006.

**Senate Bill 1156 (Chapter 357)**

Internal revenue code conformity

Provisions:

- This bill conforms the Arizona definition of "internal revenue code" to the Internal Revenue Code in effect on January 1, 2006 including those provisions that became effective during 2005 and adopts the retroactive effective dates of all retroactive provisions.
- The bill will continue to exclude the three provisions where Arizona did not previously conform to the federal change: the 30 percent special bonus depreciation provided in the Job Creation and Worker Assistance Act of 2002; and both the 50 percent bonus depreciation and Section 179 expensing in the Job and Growth Tax Relief Reconciliation Act of 2003. Arizona taxpayers must make an adjustment to add back the amount taken at the federal level and subtract the amount allowable by Arizona when calculating Arizona income tax.
- The bill also conforms the due dates for short period returns following a change in ownership to the federal due date.

**Senate Bill 1367 (Chapter 222)**

Motion picture production incentives

Makes changes to the certification of motion picture production costs and qualification for motion picture production tax incentives.

- Allows a motion picture production company to utilize its authorized payroll service company to meet the required percentage of full-time Arizona resident employees.

- Exempts the difference in the amount of eligible production costs actually incurred versus the amount pre-approved for income tax credits from that year's income tax credit cap.
- Clarifies the requirement that a motion picture production company incur production costs in Arizona of at least \$250,000 for producing one or more motion pictures during a 12 month period for which it is qualified for the tax incentives.
- Specifies that if a company does not submit notice of beginning production to the Department of Commerce within four months after the date of its Department of Commerce pre-approval, or fails to begin production within that time, the pre-approval lapses, its application is void, and the amount of pre-approval no longer applies to that year's income credit cap.
- Allows the Department of Commerce to accept initial applications for the following calendar year after October 31 of each year, if it has pre-approved the full amount of the current calendar year's income tax credit cap.
- This bill becomes effective on the general effective date retroactive to January 1, 2006.

**Senate Bill 1404 (Chapter 325)**

Corporate tuition tax credit; amount

SB1404 increases the maximum annual amount of corporate income tax credits allowed for contributions to a school tuition organization from \$5 million to \$10 million in FY 2006-2007. The cap will annually increase by 20% beginning FY 2007-2008.

**Senate Bill 1461 (Chapter 391)**

Department of Revenue; continuation

In addition to continuing the Department of Revenue until July 1, 2016, this bill prohibits DOR, unless permitted by law, from applying new legislation retroactively or in a way that will penalize a taxpayer who was complying with previous legislation. The bill restricts new interpretations or applications of tax laws by DOR and states that DOR does not have to provide a refund of tax, penalties or interest paid before a new interpretation or application unless the taxpayer provides documentation showing that the refund will go to a person who paid an extra charge to cover the tax.

**Senate Bill 1499 (Chapter 14)**

Corporate tax credit; tuition organization

SB1499 establishes a corporate income tax credit for contributions made to a school tuition organization that provides educational scholarships and tuition grants to children of low-income families.

Any corporation wishing to participate in this program and be eligible to take the credit must be pre-certified by DOR. The credit is effective with tax year 2007; pre-certification begins September 21, 2006.

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## SANTA CRUZ COUNTY JAIL TAX

**Effective July 1, 2006:** On November 8, 2005 voters approved the levy of a Santa Cruz County Jail Tax. The Jail Tax is to be applied at 10% of the Transaction Privilege Tax rate levied by the State of Arizona, (0.5% or .005 for most business classifications), as stated in A.R.S. §48-4022. The total combined rate for most transactions will be 6.6%.

[For prime contractors reporting under Class 15 *only*, prime contracting contracts entered into prior to the

November 8 election may not be subject to the increase in the tax rate under specific conditions approved by the department. For more information, contact the department's Taxpayer Information & Assistance Section at (602) 255-2060 or (800) 843-7196, or check our web site ([www.azdor.gov](http://www.azdor.gov))]

## PIMA COUNTY TRANSPORTATION EXCISE TAX

**Effective July 1, 2006:** On May 16, 2006 voters approved the levy of a Pima County Transportation Excise Tax **effective July 1, 2006**. The Transportation Tax is to be applied at 10% of the January 1, 1990 Transaction Privilege Tax rate levied by the State of Arizona, (.5% or .005 for most business classifications), as stated in A.R.S. §42-6106. The total combined rate for most transactions will be 6.1%.

This tax will apply to the Commercial Lease classification described in A.R.S. §42-5069. The total rate for those transactions will be 0.5%. Businesses with activity under this classification that are not

otherwise licensed with the Arizona Department of Revenue must complete the Arizona Joint Tax application and submit the appropriate licensing fees. For prime contractors reporting under Class 15 *only*, prime contracting contracts entered into prior to the May 16, 2006 election may not be subject to the increase in the tax rate under specific conditions approved by the Department.

For more information, contact the Department's Taxpayer Information & Assistance Section at (602) 255-2060 or (800) 843-7196, or check our web site ([www.azdor.gov](http://www.azdor.gov)).

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## CITY/TOWN TAX CODE CHANGES

### **BUCKEYE**

**Effective August 1, 2006:** On May 16, 2006 the Mayor and Town Council of the Town of Buckeye passed ordinance number 41-06. Ordinance 41-06 increases the Buckeye Town Privilege Tax on Construction Contracting, section 415, 416 and 417 from **2% to 3%**. The tax on Construction Contracting shall be reported using **BE015**.

The increase imposed by ordinance 41-06 shall not apply to construction contracts entered into prior to the effective date of the ordinance. Pre-existing construction contracts should be reported using **BE008** at a rate of **2%**.

### **CASA GRANDE**

**Effective August 1, 2006:** On May 15, 2006 the Mayor and City Council of the City of Casa Grande passed ordinance number 1397.03.07. Ordinance 1397.03.07 increases the Casa Grande City Privilege

Tax on Construction Contracting Section 415, 416 and 417 from **1.8% to 4%**. The tax on Construction Contracting shall be reported using **CG015**.

The increase imposed by ordinance 1397.03.07 shall not apply to construction contracts entered into prior to the effective date of the ordinance. Pre-existing construction contracts should be reported using **CG009** at a rate of **1.8%**.

### **CLIFTON**

**Effective July 1, 2006:** On April 13th, 2006 the Mayor and Town Council of the Town of Clifton passed ordinance number 01-2006. Ordinance 01-2006 adopted Local Option V which modifies Section 9A-460-Retail Sales, of the Town Tax Code. Option V, imposes a two-tier tax on retail sales for single items that exceed \$9,999.

If a **single item** is sold at a cost that exceeds **\$9,999**,

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## **City/Town Tax Code Changes**

*(Continued from page 4)*

the first \$9,999 is taxed at **3%** using **CF000**; however the portion that exceeds \$9,999 shall be taxed at **2%** using **CF004**.

### **FLORENCE**

**Effective March 1, 2006:** On December 5, 2005 the Mayor and Town Council of the Town of Florence passed ordinance number 412-05. Ordinance 412-05 increases the Florence Town Privilege Tax on Construction Contracting Section 415, 416 and 417 from **2% to 4%**. The tax on Construction Contracting shall be reported using **FL015**.

The increase imposed by ordinance 412-05 shall not apply to construction contracts entered into prior to the effective date of the ordinance. Pre-existing construction contracts should be reported using **FL009** at a rate of **2%**.

### **GILA BEND**

**Effective November 1, 2006:** On February 28, 2006 the Mayor and Town Council of the Town of Gila Bend passed ordinance number 06-05. Ordinance 06-05 removes the two level tax structure on big ticket items by deleting option V.

### **KEARNY**

**Effective October 1, 2006:** On July 17, 2006 the Mayor and Town Council of the Town of Kearny passed ordinance number 06-170. Ordinance 06-170 **increases** the Kearny Town Privilege Tax from **2% to 2.5%**. The tax rate increase affects the following classifications:

Advertising; Amusements; Job printing;  
Manufactured buildings; Timbering and other extraction; Publishing; Hotels; Rental, leasing and licensing for use of real property; Rental, leasing, and licensing for use of tangible personal property; Restaurants and Bars; Retail; Telecommunications; Transporting for hire and Utilities.

Ordinance 06-170 also **increases** the Kearny Town Privilege Tax on Construction contracting; construction contractors, Construction contracting; speculative builders and Construction contracting owner-builders who are not speculative builders from **2% to 3.5%**. The tax on Construction contracting shall be reported using **KN015**.

The increase imposed by this ordinance shall not apply to contracts entered into prior to the effective date of the ordinance. Pre-existing contracts should be reported using **KN009** at a rate of **2%**.

### **LITCHFIELD PARK**

**Effective June 17, 2006:** On May 17, 2006 the Mayor and City Council of the City of Litchfield Park passed ordinance number 06-115. Ordinance 06-115 increases the Litchfield Park City Privilege Tax on Construction Contracting, section 415, 416 and 417 from **2% to 4%**. The tax on Construction Contracting shall be reported using **LP015**.

The increase imposed by ordinance 06-115 shall not apply to construction contracts entered into prior to the effective date of the ordinance. Pre-existing construction contracts should be reported using **LP008** at a rate of **2%**.

### **MARANA**

**Effective August 1, 2006:** On June 6th, 2006 the Mayor and Town Council of the Town of Marana passed ordinance number 2006-13. Ordinance 2006-13 decreases the Marana Town Privilege Tax from **2.5% to 2%**. The tax rate decrease affects the following classifications:

Amusements; Job printing; Manufactured buildings; Timbering and other extraction; Publishing; Rental Occupancy; Hotels; Rental of real property; Rental of tangible personal property; Retail sales; Restaurants and Bars; Transporting for hire and Use Tax.

Ordinance 2006-13 decreases the **Additional Tax on Transient Lodging from 3.5% to 3%**. The Additional Tax on Transient Lodging shall be reported using **Code MA003**. The total city rate for transient lodging is **5%, 2%** which is reported using code **MA000** and **3%** which is reported using code **MA003**. Ordinance 2006-13 also decreases the Marana Privilege Tax from **4.5% to 4%** on the following classifications:

Construction Contracting (sections 8-415, 8-416 & 8-417); Telecommunications and Utilities

### **PINETOP/LAKESIDE**

**Effective August 1, 2006:** On May 18, 2006 the Mayor and Town Council of the Town of Pinetop/Lakeside passed ordinance number 06-269. Ordinance 06-269 adopted Local Option V which modifies Section 8A-460-Retail Sales, of the Town Tax Code. Option V, imposes a two-tier tax on retail sales for single items that exceed \$5,000.

If a **single item** is sold at a cost that exceeds **\$5,000**, the first \$5,000 is taxed at **2.5%** using **PP000**; however, the portion that exceeds \$5,000 shall be taxed at **1.5%** using **PP005**.

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## City/Town Tax Code Changes

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### **SIERRA VISTA**

**Effective September 1, 2006:** On June 26, 2006 the Mayor and City Council of the City of Sierra Vista passed ordinance number 2006-013. Ordinance 2006-013 increases the Sierra Vista City Privilege Tax on rental of real property from **0% to 1%**. The tax on rental of real property shall be reported using **SR013**. Ordinance 2006-013 also adopts local option "T" which exempts income derived from the rental, leasing or licensing of real property to a corporation provided that the lessor's aggregate holdings in the lessee corporation amount to at least eighty percent of the voting stock of the lessee corporation.

On June 26th, 2006 the Mayor and City Council of the City of Sierra Vista passed ordinance number 2006-014. Ordinance 2006-014 **increases** the Sierra Vista City Privilege Tax from **1.5% to 1.75%** on the following classifications:

Advertising; Amusements; Feed at Wholesale; Job Printing; Manufactured Buildings; Timbering and other extraction; Publishing and Rental of tangible personal property.

Ordinance 2006-014 **increases** the Sierra Vista City Privilege Tax from **1.6% to 1.75%** on Retail and Use Tax.

Ordinance 2006-014 also increases the Sierra Vista City Privilege Tax on Construction contracting; construction contractors, Construction contracting; speculative builders and Construction contracting owner-builders who are not speculative builders from **1.5% to 2.45%**. The tax on Construction contracting shall be reported using **SR015**.

The increase imposed by ordinance 2006-014 shall not apply to construction contracts entered into prior to the effective date of the ordinance. Pre-existing construction contracts should be reported using **SR006** at a rate of **1.5%**.

The following reporting codes are effective September 1, 2006:

Privilege Tax	SR000	1.75%
Use Tax	SR002	1.75%
Restaurant/Bar	SR003	2.60%
Hotel/Motel	SR004	5.50%

### Pre-existing Construction Contracts

	SR006	1.50%
Utilities/Telecommunications		
	SR008	2.00%
Jet Fuel	SR009	\$0.02/gal
Rental of real property	SR013	1.00%
Construction Contracting		
	SR015	2.45%

### **STAR VALLEY**

**Effective April 1, 2006:** On March 14, 2006 the citizens of Diamond Star approved the Town's name change to **Star Valley**.

The following reporting codes have been set up for Star Valley:

Privilege Tax	SY 000	2.00%
Metalliferous Mining	SY 005	0.10%

The Town of Star Valley taxes the following classifications:

Advertising; Amusements; Construction Contracting; Construction Contractors, Speculative Builders, and Owner Builders who are not speculative builders; Job Printing; Manufactured Buildings; Timbering and other extraction; Mining; Publishing; Hotels; Rental of real property; Rental of Tangible personal property; Restaurants and Bars; Retail; Telecommunications; Transporting for hire; and Utilities.

### **WICKENBURG**

**Effective June 1, 2006:** On March 20, 2006 the Mayor and Town Council of the Town of Wickenburg passed ordinance number 910. Ordinance 910 establishes an **Additional Tax on Transient Lodging of 3.5%**. The Additional Tax on Transient Lodging shall be reported using **Code WB003**. The total Town rate for transient lodging is **5.2%, 1.7%** which is reported using code **WB000** and **3.5%** which is reported using code **WB003**.

Ordinance 910 also increases the Wickenburg Town Privilege Tax on Restaurants and Bars from **1.7% to 5.2%**. The tax on Restaurant and Bars shall be reported using **WB011**.

## 911 WIRELESS AND WIRELINE RATE REDUCTION EFFECTIVE JULY 1, 2006

**Effective July 1, 2006:** The Arizona State Legislature approved a decrease to the 911 Wireless Telecommunications tax (class 036) and the 911 Wireline Telecommunications tax (class 131) pursuant

to A.R.S. §42-5252. The new monthly rate will be 28¢ per activated wireless and wireline service. For more information, check our web site ([www.azdor.gov](http://www.azdor.gov)).

## RENTAL OCCUPANCY TAX, MEMBER CAMPING CLASSIFICATION AND TIMBER SEVERANCE TAX REPEAL — EFFECTIVE NOVEMBER 1, 2006

**Effective November 1, 2006:** The Legislature passed and Governor Napolitano signed House Bill 2876 repealing the Rental Occupancy Tax (class 028), the Timbering Severance Tax (classes 020, 021, and 022) and the Membership Camping Classification (class 047). There will be no state or county tax on these

activities beginning November 1, 2006, so you do not have to report income from these activities occurring after October 31, 2006. Some cities and towns will, however, continue to tax these activities.

Please refer to our website at [www.azdor.gov](http://www.azdor.gov) for updated information.

The Tax Facts—Summary of General Fund Revenues & Individual Income Tax Receipts—are available on the department's website, [www.azdor.gov](http://www.azdor.gov)

### E-Mail Your Questions

If you have a question that you cannot find the answer to, our Technical Assistance personnel may prove useful to you. We will gladly respond to any e-mail technical tax inquiry. All inquiries will be responded to within two working days.

E-mail your question to:

[TaxpayerAssistance@azdor.gov](mailto:TaxpayerAssistance@azdor.gov)

In the interest of maintaining confidentiality, DOR cannot respond to inquiries that include a Social Security number, FEIN, TPT or W/H number, or other specific taxpayer identifiers.

### Department of Revenue Telephone Numbers & Web addresses

#### Individual & Corporate Income Tax

..... (602) 255-3381

Toll-free from

area codes 520 and 928..... (800) 352-4090

#### Transaction Privilege, Use, Withholding Tax,

Licensing..... (602) 255-2060

Toll-free from

area codes 520 and 928..... (800) 843-7196

#### Hearing Impaired TDD User .. (602) 542-4021

Toll-free from

area codes 520 and 928..... (800) 397-0256

**To order forms by phone** ..... (602) 542-4260

**Forms and instructions are also available**

**on our website at** ..... [www.azdor.gov](http://www.azdor.gov)

**Businesses can now register, file and pay**

**online at** ..... [www.AZTaxes.gov](http://www.AZTaxes.gov)





## **ANNUAL TAX TALK COMING**

The annual December Tax Talk Conference is coming up! Speakers will include:

- Arizona Department of Revenue,
- Internal Revenue Service,
- Social Security Administration,
- Immigration Custom Enforcement,
- Representative from the Arizona Forum for the Improvement of Taxation, and more.

Registration forms and information will be available soon. Visit our website at [www.azdor.gov](http://www.azdor.gov) and click on the Community OutReach and Education link.

**Arizona**



**consider it done**

## **REMINDER, REMINDER...**

The October 16, 2006 income tax filing date is rapidly approaching. Arizona will continue to accept electronic income tax returns through the due date, October 16, 2006. E-file is a safe, easy, convenient and secure way to file individual income taxes. E-file your clients' tax returns, and you too can consider it done.